



European Federation for Transport and Environment

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# Paying properly – not paying differently

Towards a taxation of passenger cars that addresses both car-ownership and -usership

***Harmonising road transport taxes in Europe improves the Internal Market and can be an important step towards achieving transparency in the ways by which to levy charges and taxes for road and car use. But will such tax harmonisation be of benefit to the environment? What are the environmental implications of the Commission's recent attempts to alter and harmonise existing car taxation systems? This T&E position paper provides answers to the above questions and sheds a critical light on the recent Commission Communication on the Taxation of Passenger Cars in the EU. The position paper argues that apart from properly charging the use of private cars it is necessary to continue to charge car-ownership. Only by charging both user- and ownership can passenger transport become more sustainable!***

## The Background

The European Commission is currently calling for significant changes in the way passenger cars are taxed. The intention is to gradually apply the user pays principle to motorised transport. According to DG TAXUD, the envisioned taxation system will ensure a more appropriate internalisation of the external costs of private cars – an important principle for which T&E has long been arguing.

In general, this Communication carries a potential to make transport more sustainable, because it allows for charging the actual use of cars. The Commission calls for the abolition of car Registration Taxes (RT) in favour of higher Annual Circulation Taxes (ACTs). It argues that “vehicle tax bases need to be restructured in order to establish a more direct relation between taxation levels and the CO<sub>2</sub>-emissions of new passenger cars. Both RT and ACT should be turned into entirely CO<sub>2</sub> based taxes, or at least a CO<sub>2</sub> sensitive element should be added to both of them.” Because of its positive emphasis on CO<sub>2</sub> efficiency and charges on the actual use of cars this Communication clearly needs to be welcomed. But there are also a number of environmental problems that DG TAXUD does not capture with the fiscal measures it suggests. Particularly, the ever-growing number of cars in urban areas, as well as an ever-increasing amount of land that is being dedicated to road transport infrastructure are two completely neglected issues. Therefore, we argue that a harmonised car taxation as it is proposed by DG TAXUD ought to address at least two problems: on the one hand it needs to charge car-use based on emissions, and on the other hand it needs to charge car ownership based on land take.

Taxing the actual use of private cars is an important step towards sustainable transport. But charges on *car usership* ought to complement the already existing taxation of *car ownership*, and not just replace it. A full internalisation of all environmental costs of cars must recognise the problems that result from the still growing sum total of cars on Europe's roads. Road capacity in many European regions has reached its limits – a fact that is most illustratively expressed by the continuous congestions on national highways and trunk roads. Capacity limits are reached as well in almost all urban areas, where evermore space is consumed by car-infrastructure such as parking spaces, car-dealers or car repair-, maintenance- and washing-facilities – not to mention streets themselves. (The land-take that results from road-construction in newly developed suburban areas often amounts to as much as 50%).

Therefore a taxation system is needed that restricts both private user- and ownership by making sure that road passenger transport pays for its external costs. The positive response with which European carmakers have welcomed (and had lobbied for) the abolition of registration taxes illustrates how auto-friendly the proposed legislation eventually may be. ACEA has cherished the fact that the new tax strategy will be “revenue-neutral”, which is to say higher road and fuel taxes will compensate for the loss of registration taxes. This, however, means that transport in general will not become more expensive – *but that the sector will just pay differently and still not properly.*

## Policy Recommendations

In order to ensure that road passenger transport pays properly for the hazards it inflicts upon human health and the environment, this Commission Communication on Taxation of Passenger Cars will have to take a number of aspects into account. Against this background, **the Commission needs to**

- **consider the long awaited Framework Directive on infrastructure charging.**  
DG TREN should present its proposal for a Framework Directive on charging the use of transport infrastructure. Any new legislation on passenger car taxation ought to be placed into the context of this forthcoming Directive. The aim is thereby to pave the way for a daughter directive that deals exclusively with the social marginal costs of passenger transport. Such legislation is crucial, because it will be a key instrument for “getting the prices right”, which is now an accepted principle and will thus enable a shift to the less polluting modes.
- **provide fiscal sticks and carrots to enable modal shift.**  
If the Commission does not provide for the necessary penalties and incentives that are needed to implement demand-oriented mobility management, then private car ownership, transport volume and hence environmental problems, will continue to rise. Future charging and taxation efforts must be directed towards the overall ecological impact of motorised transport and not just the harmonisation of different European taxing systems. They ought to take all environmental impacts of transport into consideration and not just focus on one single (although important) indicator, such as CO<sub>2</sub> emissions.
- **charge both the car user and the owner.**  
In order to promote more environmentally sound motorised transport, the Commission should not abolish Registration Taxes, but reform them. It should introduce a way to levy vehicle taxes in such a way that they comprise two components: one that charges the actual use of cars and another that charges private car-ownership. While the former must be based on emissions, the latter ought to refer to the land that is used for road transport. This second component takes into account the consumption of space by motorised transport in the specific city or region where the car is registered and used. The tax varies depending upon the amount of land that is dedicated to motorised individual transport in that city or region. In other words, having more space for the private car is equivalent to paying higher taxes. This taxation system should also provide for an incentive to shift from owning a car to using one, whenever other modes are not available. It is important to provide a legal framework that allows for a more-environmentally sound form of both car-user and ownership, such as car sharing or car pooling.

To conclude, harmonisation will make the economy more efficient, but does not automatically entail environmental improvement. As they stand now, the plans of the Commission to replace Registration Taxes by Annual Circulation Taxes may partially reduce private car use and thus lower the annual emissions of a single car. However, they will not provide any incentive at all to refrain from owning a car. In fact, the opposite is the case, because abandoning registration taxes will further stimulate the production and consumption of cars. This will be most tangible in countries like Denmark that were able to limit the growth of motorisation rates and maintain a “greener” modal split by ways of higher registration rates. What this proposed Directive will do is stimulate the purchase and private ownership of cars – cars that might be driven less, but still parked in places that could be used for better things.

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